

## Message Text

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ORIGIN SS-25

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /026 R

DRAFTED BY NEA/ARP:FMDICKMAN:CEJ

APPROVED BY T - MR. MAW

NEA - AMBASSADOR AKINS

NEA - MR. SOBER

L/NEA - MR. HUFFMAN

DSAA - LT. GEN. FISH

S/S: REWOODS

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O 090003Z AUG 75

FM SECSTATE WASHDC

TO AMEMBASSY JIDDA IMMEDIATE

INFO USMTM DHAHRAN

S E C R E T STATE 188452

EXDIS MILITARY ADDEE HANDLE AS SPECAT EXCLUSIVE

E.O. 11652: GDS

TAGS: MASS, SA, US

SUBJECT: NORTHROP AGENT FEES

REFS: (A) STATE 177925, 290144Z JUL 75 (NOTAL); (B)

SECDEF 052210Z AUG 75

1. SINCE REFTEL (A), NORTHROP MET AGAIN WITH ADNAN KHASHOGGI AND HIS LAWYERS IN LOS ANGELES ON AUGUST 4 TO DISCUSS AGENT FEES PROBLEM. AT THAT MEETING, KHASHOGGI STATED THAT TRIAD WOULD NOT VOLUNTARILY TERMINATE ITS AGENCY AGREEMENT WITH NORTHROP ON PEACE HAWK PROGRAM.

2. TRIAD LAWYERS (MACLEOD, FULLER, MUIR, AND GODWIN) SUBSEQUENTLY PRESENTED NORTHROP WITH A LETTER DATED AUGUST 6 (COPY BEING POUCHED TO EMBASSY) WHICH INTER ALIA STATES THAT (A) TRIAD HAS REVIEWED NORTHROP'S TWO LETTERS SETTING SECRET

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FORTH CORRESPONDENCE ON THE AGENCY ISSUE AND A PROPOSED TERMINATION AGREEMENT; (B) TRIAD REGRETS EXISTENCE OF CIRCUMSTANCES PROMPTING NORTHROP TO PROPOSE TERMINATION OF AGREEMENT; (C) TRIAD HAS INVESTED SUBSTANTIAL AMOUNTS OF

TIME, EFFORT, AND CAPITAL WITH NORTHROP TO INITIATE AND ATTAIN SUCCESSFUL PEACE HAWK PROGRAM; (D) TRIAD THEREFORE INTENDS TO ASSURE THAT ANY MODIFICATION OF ITS CONTRACTUAL RIGHTS TAKE INTO ACCOUNT ITS PERFORMANCE; (E) PROPOSED

TERMINATION AGREEMENT AND RELEASE ARE NOT NECESSARY OR APPROPRIATE UNDER ALLEGED POLICIES OF USG OR SAG; (F) DESPITE NORTHROP ALLEGATIONS THAT SAG POLICIES WITH REGARD TO PEACE HAWK PROGRAM REQUIRE TERMINATION OF AGREEMENT, TRIAD HAS NOT FOUND CONFIRMATION OF THAT POSITION WITHIN RULES AND REGULATIONS OF SAG, RATHER BELIEVES THAT SAG RECOGNIZES AND HONORS SANCTITY OF PRIVATE CONTRACTUAL RIGHTS AND IT NOT POLICY OF SAG TO INTERFERE WITH LEGITIMATE COMMERCIAL RELATIONSHIPS; (G) TRIAD IS THEREFORE PROCEEDING AS RAPIDLY AS POSSIBLE TO CLARIFY IN ITS OWN MIND SAG'S POSITION AND IS SEEKING ASCERTAIN PRECISE POLICIES AND DESIRES OF SAG RE BROADER CONTRACTUAL RELATIONSHIP BETWEEN TRIAD AND NORTHROP AS WELL AS PREVIOUSLY RECOGNIZED DISTINCTION BETWEEN INTERMEDIARIES AND BROKERS AND BONA FIDE MANUFACTURERS AND MARKETING ORGANIZATION REPRESENTATIVES; AND (H) FOR ALL THESE REASONS TRIAD INTENDS TO PURSUE ITS FULL LEGAL RIGHTS AND REMEDIES UNDER PRESENT AGENCY AGREEMENT AND IT DOES NOT RECOGNIZE OR ACCEPT ANY RIGHT ON PART OF NORTHROP TO TERMINATE AGREEMENT.

3. NORTHROP LEGAL COUNSEL POINTS OUT THAT TRIAD LETTER WAS WRITTEN AFTER KHASHOGGI'S MEETING WITH PRINCE SULTAN AND POSSIBLY OTHER SAUDI OFFICIALS. HOWEVER, IT UNDERSTANDS KHASHOGGI HAS SINCE GONE BACK TO SAUDI ARABIA TO PLEAD HIS CASE WHERE HE WILL ENDEAVOR PRESENT IT BEFORE SAUDI COUNCIL OF MINISTERS (REF B) ARGUING THAT PRINCE SULTAN EXCEEDED HIS AUTHORITY IN SEEKING TO COMPEL TRIAD TO TERMINATE ITS AGENCY AGREEMENT WITH NORTHROP.

4. IN LIGHT PROBLEM POSED FOR NORTHROP IF AGENCY FEE QUESTION NOT SETTLED BEFORE AUGUST 16 WHEN PHASE III EX-  
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TENSION BEGINS, CHARGE SHOULD DELIVER FOLLOWING PERSONAL LETTER FROM AMBASSADOR AKINS TO PRINCE SULTAN AND REPORT HIS REACTIONS.

5. BEGIN TEXT: YOUR ROYAL HIGHNESS: I HOPE YOU WILL EXCUSE ME FOR NOT PRESENTING THIS MESSAGE IN PERSON BUT FAMILY REASONS REQUIRE ME TO REMAIN IN THE UNITED STATES A FEW WEEKS LONGER. MY DAUGHTER HAS JUST SUCCESSFULLY UNDERGONE A DIFFICULT OPERATION. THANKS BE TO GOD, SHE IS NOW CONVALESCING VERY NICELY BUT I WANT TO BE WITH HER WHEN SHE RETURNS TO SAUDI ARABIA.

YOU WILL RECALL OUR MEETING OF JULY 14 WHEN I EXPLAINED

THAT ONE OF THE PURPOSES OF MY BRIEF RETURN TO THE KINGDOM WAS TO RAISE WITH YOU THE IMPORTANT AND DELICATE MATTER OF NORTHROP CORPORATION'S OPERATIONS IN SAUDI ARABIA. YOUR ROYAL HIGHNESS AFFIRMED TO ME THAT NO AGENT'S

FEES OR COMMISSIONS COULD BE PAID FOR ANY OF NORTHROP'S OR FOR ANY OTHER FOREIGN MILITARY SALES TO YOUR MINISTRY AND IF NORTHROP WERE TO DO SO, IT WOULD QUICKLY FIND ITSELF OUT OF SAUDI ARABIA.

THE US DEPARTMENT OF DEFENSE HAS ISSUED INSTRUCTIONS SPECIFICALLY PROHIBITING ANY AGENT FEES FOR FOREIGN MILITARY SALES TO THE SAUDI MINISTRY OF DEFENSE AND AVIATION UNLESS SPECIFICALLY IDENTIFIED AND APPROVED IN WRITING. THIS PROHIBITION APPLIES TO THE PEACE HAWK THREE EXTENSION WHICH THE SAUDI GOVERNMENT HAS JUST APPROVED. THIS WILL OF COURSE AMOUNT TO A VERY LARGE SAVING FOR THE SAUDI GOVERNMENT.

IT WILL, OF COURSE, BE OF INTEREST TO YOUR ROYAL HIGHNESS THAT SIMILAR REQUESTS HAVE BEEN RECEIVED AND IMPLEMENTED BY THE DEPARTMENT OF DEFENSE FOR IRAN AND OTHER COUNTRIES.

SINCE OUR CONVERSATION, NORTHROP HAS SOUGHT TO TERMINATE ITS AGENCY AGREEMENT WITH TRIAD BEFORE COMMENCING FURTHER PEACE HAWK PROJECTS. OTHERWISE, AS I TOLD YOUR ROYAL HIGHNESS, ITS LAWYERS HAVE CONCLUDED THAT NORTHROP COULD BE HELD LIABLE TO AN AGENT'S FEE IN EXCESS OF THE CORPOR-  
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ATION'S ANTICIPATED WORLDWIDE PROFITS.

I HAVE JUST LEARNED THAT TRIAD HAS REFUSED TO TERMINATE ITS AGENCY AGREEMENT WITH NORTHROP. IN FACT, I AM TOLD TRIAD IS APPEALING ITS CASE TO THE SAUDI COUNCIL OF MINISTERS. NORTHROP THEREFORE FINDS ITSELF IN A MOST DIFFICULT POSITION IN VIEW OF THE FACT THAT THE NEXT PHASE OF THE PEACE HAWK PROGRAM IS TO BEGIN ON AUGUST 16. NORTHROP'S LAWYERS HAVE INFORMED US THAT UNLESS THE CORPORATION IS ABLE TO TERMINATE ITS AGENCY AGREEMENT PROMPTLY (OR BE REIMBURSED FOR TRIAD FEES), NORTHROP WILL HAVE TO WITHDRAW FROM PEACE HAWK PROJECTS SINCE TRIAD HAS INDICATED BY LETTER TO NORTHROP THAT IT INTENDS TO PURSUE ITS FULL LEGAL RIGHTS AND REMEDIES AND DOES NOT RECOGNIZE OR ACCEPT ANY RIGHT ON THE PART OF NORTHROP TO TERMINATE ITS AGREEMENT NOR, IT ALLEGES, DOES IT FIND ANY CONFIRMATION INSIDE THE SAUDI GOVERNMENT OF YOUR ROYAL HIGHNESS' EXPLICITLY STATED PROHIBITION.

I REGRET THAT I AM UNABLE TO DISCUSS THIS MATTER WITH YOU PERSONALLY AT THIS TIME BUT WISHED TO INFORM YOU OF THESE RECENT DEVELOPMENTS AS SOON AS POSSIBLE SO THAT YOU MIGHT

TAKE APPROPRIATE TIMELY ACTION TO RESOLVE THE CURRENT  
PROBLEM AND ENSURE SMOOTH CONTINUATION OF THE PEACE HAWK  
PROGRAM. AS I HAVE NOTED, NORTHROP HAS CONCLUDED THAT

EITHER THE AGENCY FEES MUST BE PAID ON DEMAND BY TRIAD  
OR TRIAD'S PRESENT AGENCY ARRANGEMENT WITH NORTHROP AS IT  
RELATES TO FOREIGN MILITARY SALES MUST BE TERMINATED IF  
NORTHROP IS TO CONTINUE IN THE PEACE HAWK PROGRAM. I AM  
LOOKING FORWARD TO SEEING YOU AT THE END OF THE MONTH.  
WITH WARM REGARDS, JAMES E. AKINS, AMERICAN AMBASSADOR.  
END TEXT. KISSINGER

SECRET

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## Message Attributes

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**Capture Date:** 26 AUG 1999  
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